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C O N F I D E N T I A L SECTION 01 OF 06 BANGKOK 000286

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STATE PASS TO USTR FOR BWEISEL, BKLEIN  
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TAGS: [ECON](#) [ETRD](#) [EINV](#) [PREL](#) [CH](#) [TH](#)  
SUBJECT: CHINA'S RISE AS THAILAND'S ECONOMIC PARTNER

REF: A. 10 BANGKOK 269 (CHINA'S EFFORTS TO COURT THAILAND)  
[1](#)B. 10 BANGKOK 186 (VIEWS ON THE RISE OF CHINA)  
[1](#)C. 09 CHIANG MAI 170 (KUNMING-BANGKOK CORRIDOR)  
[1](#)D. 09 BANGKOK 534 (THAILAND AT G20)

CLASSIFIED BY: Ambassador Eric G. John, reasons 1.4 (b) and (d)

[1](#)1. (SBU) SUMMARY: For the month of December 2009, China, for the first time, displaced the United States as Thailand's top export market. For the previous year as a whole, the U.S. barely held on to the number one position it has held for decades, but China is likely to overtake the U.S. in 2010. Counting exports and imports, China is now Thailand's second largest trading partner (following Japan), having overtaken the United States in 2007. While the United States continues to be a major player in the Thai economy, and foreign direct investment from Japan, the U.S., and Europe still dominates, the new trend arrows point north. In 2009 alone, the value of Chinese investment applications in Thailand increased by more than USD 1 billion.

[1](#)2. (C) SUMMARY CONT'D: Trade agreements between Thailand and China, and between ASEAN and China, have bolstered trade, but the main driving force is simply the growth of the China market. Moreover, the burgeoning economic relationship between Thailand and China is facilitated by the large number of Thai with at least part Chinese ethnicity in the Thai commercial sector. Embassy contacts have told us that Thai trade policy with China has for years been influenced by Sino-Thai trading conglomerates. While cheap Chinese imports hurt some Thai producers, Bangkok is generally reluctant to rock the boat on economic matters with Beijing, even when China's exchange rate policies undermine Thai competitiveness. In fact, Finance Ministry and Bank of Thailand leaders applaud the growing Chinese connections, declaring that Thailand is better off moving away from economic dependence on the West. As Finance Minister Korn told CNN in an interview last month, "The Chinese attitude, diplomatically, politically, and economically, with the rest of Asia has been wholly positive." END SUMMARY.

[1](#)3. (C) COMMENT: Thailand's long-term growth prospects are such that the market here presents a good opportunity to seek to double our

exports, in line with the President's goal. Thailand will continue to be distracted by political and social change over the next several years, but will benefit from our trade agenda as civil society continues to mature. In the near term, our ability to manage a counterstrategy to China's charm offensive is complicated by the fact that, unlike the Chinese, most of the U.S.-Thai trade and investment relationship is based on decisions made by private U.S. firms and not by the U.S. government. Nevertheless, we will continue to advocate for changes to improve the trade and investment climate, in particular the need for greater transparency and rule of law. END COMMENT.

#### China Taking over as Thailand's Top Export Market

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14. (SBU) Thai economic officials celebrated after reviewing the government's official trade data for December 2009, which cited a 26.1 percent increase for Thai exports over December 2008. For this export-driven economy, the data was a sign that the worst of the recent economic recession was probably over, and that the government's economic stimulus packages, many targeted at export industries, may be working. But key to that big picture improvement was that Thai exports to China increased more than 115 percent for the month of December (year-on-year) -- significantly undergirding the overall improved figures. Shipments to China ballooned from USD 863 million in December 2008 to USD 1.88 billion in December 2009. Thai export sales to the U.S. grew 13 percent to USD 1.56 billion over the same period.

15. (SBU) The United States continues to be a significant player in

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the Thai economy. Taking advantage of the unique bilateral Treaty of Amity and Economic Cooperation, hundreds of U.S. firms have deep roots in Thailand, employing an estimated quarter of a million Thai. Nevertheless, the trends are in China's favor. For 2009 as a whole, the United States maintained a slight edge over China as Thailand's number one export destination, a position we have held for decades, but by the end of 2009, China had moved past both the United States and Japan as Thailand's top export market. The total amount of exports to the U.S. (with the exception of the last year during the global recession), has continued to increase as the Thai export pie has grown larger, but the rate of increase is nothing compared to that of exports to China. The share of Thai exports bound for China has risen from 5.2 percent in 2002 to 10.3 percent in 2009. In 2002, the United States was the destination for nearly 20 percent of all exports from Thailand; today, only 11 percent are bound for the U.S. market. In a January 21 interview with CNN, Finance Minister Korn Chatikavanij stated the export growth to China is "indicative of the fact that China has become a much more significant market."

#### A Deepening (and Rapidly Expanding) China Trade Relationship

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16. (SBU) The data for December were a surprise to some, but when looking at the last three decades of Thai-Chinese economic relations, it is obvious that this day was inevitable. In 1975, the first year of diplomatic relations between Thailand and the PRC, total bilateral trade between the two countries amounted to only USD 25 million. Throughout the 1980s, bilateral relations focused on the political and military spheres, but beginning in the 1990s, the two governments began to negotiate and sign a number of agreements to promote trade and investment. Combined with the rapid expansion of the Chinese economy in 1990s, the governments' efforts meant significant new opportunities for Thai exporters to seize the growing demand in China's massive market.

17. (SBU) Today, following a decade of double-digit trade growth, China now ranks as Thailand's second largest trading partner (exports and imports), having displaced the United States in 2007. The gap between Thai trade with China and with the U.S. is growing each year, and China soon may challenge Japan as Thailand's top trading partner. From 1995 to 2002, Thai-Chinese trade more than doubled from USD 3.7 billion to USD 8.4 billion. But more impressively, bilateral trade between the two then quadrupled between 2002 and 2008, from USD 8.4 billion to over USD 36 billion, an increase of over 330 percent.

U.S.-Thai trade grew 60 percent over the same period. Thai-Japanese trade grew 116 percent to USD 53.4 billion.

#### New Trade Pacts only Part of the Growth

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¶18. (SBU) Following the signing of the framework for the ASEAN and China Free Trade Agreement in 2002, former Prime Minister Thaksin Shinawatra wanted Thailand to have a head-start on the other ASEAN countries. Thaksin believed that Thailand should be China's gateway to ASEAN, and with Thai companies eager to sell their wares in China, Thaksin negotiated the October 2003 China-Thailand Early Harvest Agreement to give Thai exporters a two year jump start on ASEAN competitors. The initial agreement accelerated tariff reductions on agricultural products, and Thaksin hoped the deal would give Thai fruit and vegetable exporters, traditionally some of Thailand's strongest businesses, an early advantage in the Chinese market. The Thai government, and the majority of Thai businesses, viewed the growing demand in China as a major engine for Thai growth.

¶19. (SBU) In the years following the Early Harvest Agreement, Thailand and China negotiated and signed additional agreements on trade and investment -- many more symbolic than practical. In 2004, China and Thailand formed the Joint Committee on Trade, Investment and Economic Cooperation to further economic ties. At the second meeting of the Joint Committee in 2005, then Thai Deputy Prime Minister Somkid

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Jatusripitak and Chinese Vice Premier Wu Yi pledged to increase bilateral trade to USD 50 billion by 2010. What was seen then as a wildly optimistic target may be reached within the next couple of years.

¶10. (SBU) But trade bolstered by the new trade agreements was only a portion of the overall growth. Most of the trade growth is accounted for by the expansion of the Chinese market. The early harvest agreement clearly improved agricultural trade between the two countries, but the most significant trade gains over the last decade were seen in sectors not covered by these initial tariff reductions -- notably computers and computer parts and other manufactured goods. One of Thailand's strongest exports has been computer hard drives from US and Japanese manufacturers such as Western Digital and Toshiba who established their operations in Thailand many years ago to export to computer assembly plants throughout Asia, including China.

¶11. (SBU) As the ASEAN-China FTA kicks off this year, Prime Minister Abhisit Vejjajiva and his economic team are well aware of the pitfalls, including the potential negative impact on domestic industries that do not adapt to the increased competition from China. Concerns also remain that the difficulties of intra-provincial trade within China, and the effect that excise taxes, documentation requirements and other non-tariff barriers, will give China an upper hand in the new agreement. Despite the challenges ahead, the Thai government is optimistic the ASEAN-China agreement will deliver even more opportunities to the Thai economy overall and bring a boost to Thailand's exports. As Finance Minister Korn told CNN, "I think it's important to continue to work with each other rather than to be concerned about the potential impact of [China's] economic rise."

#### Chinese FDI Growing, But Still Small

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¶12. (SBU) Investment from China is still a small fraction of that from more established foreign investors from Japan, the U.S., and Europe. However, Chinese investors are clearly increasing their presence in Thailand. According to Thailand's Board of Investment, the value of proposed Chinese investments in Thailand increased by more than USD 1 billion in 2009. Chinese applications to the Board of Investment included a proposed power plant worth nearly USD 800 million, a chemical production plant worth more than USD 150 million, and a coal mine project valued at nearly USD 100 million. If these applications are approved (a process which typically takes many months), the 2010 FDI figures from China may be sharply higher than in previous years. Net investment remains relatively low, but trend lines for future investment point upwards, with some Thai officials

predicting that China will one day become one of the top investors in Thailand.

¶13. (SBU) Unlike most Japanese and American investors, Chinese investors have typically teamed up with Thai partners. Chinese investors view Thailand as a manufacturing and export base to expand markets in the rest of ASEAN. Most projects are in garments and light industry, but substantial investments have been made in chemical and plastics production, mining, and electronics. While no special incentive packages exist for Chinese investors (unlike those enjoyed by U.S. firms under the Treaty), the Thai government sees new opportunities for Chinese investors who have access to China's wealth of foreign currency reserves. The Board of Investment created a special China desk to facilitate mutual investments several years ago, and the Chinese Ministry of Commerce responded by sending more diplomats to its Embassy in Bangkok to help potential investors navigate the investment procedures.

¶14. (C) Going in the other direction, Thai businesspeople, particularly those of Chinese descent, have been investing in China for the last three decades. Some analysts estimate that Thai investments in China are well over ten times the value of Chinese

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investments in Thailand. The most prominent Thai investor in China is the Charoen Pokphand Group (CP Group), a Sino-Thai multinational firm which estimates the value of its Chinese investments at USD 6 billion. Embassy contacts point out that the CP Group has managed to place at least one of its top managers in a key ministerial position in every Thai government in the past decade --perhaps the only Thai entity that has managed to maintain substantial influence in recent governments across the political spectrum.

Make Way for Chinese Tourists  
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¶15. (SBU) China's new traveling class is also opening up new opportunities for increased trade and investment between the two countries. In 1995, annual tourist arrivals from China amounted to only 15,000, but by 2007, the number of Chinese tourists had swelled to nearly one million, easily surpassing the fewer than 700,000 who arrive annually from the U.S. While the global economic crisis and political uncertainty in Thailand slowed tourism in 2008-09, Thai tourism authorities are hopeful that the upcoming Chinese New Year festivities in Thailand will give an early boost to Chinese arrivals in 2010, and Bangkok's malls and department stores are gilded to the hilt with decorations welcoming the Chinese Year of the Tiger. Thailand's ethnic Chinese, who account for between 10 and 15 percent of the total population, are also traveling in large numbers to China. According to China's National Tourist Office, more than 540,000 Thais made their way north in 2009.

Avoiding Debate on Exchange Rates  
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¶16. (C) In the aftermath of the 1997 financial crisis, when the value of the Thai baht fell by half, China's decision not to devalue the renminbi was warmly welcomed as a gesture of support for other Asian economies devastated by the ensuing economic collapse. (NOTE: Thai government and financial elites have not forgotten that during the same period the U.S. would not initially support an IMF bailout package for Thailand as it had earlier for Mexico. END NOTE.) During the past several months the baht has appreciated, reflecting Thailand's continuing current account surplus, but Beijing has kept the renminbi fixed to the dollar, making Chinese exports cheaper than Thai exports. When visiting U.S. Treasury officials last week asked Bank of Thailand deputy governor Bandid Nijathaworn whether Thailand would raise this issue with the Chinese, he demurred, clearly not wanting to challenge the Chinese on the issue. At the recent Asian Financial Forum in Hong Kong, meanwhile, Finance Minister Korn reportedly spoke only of the need for currency adjustment in the dollar and the pound.

New Financial Relationships: Asians Helping Asians  
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¶17. (SBU) Also in the wake of the 1997 financial crisis, Thailand led an effort to create a pool of foreign exchange funds for use by Asian economies separate from the IMF. The effort became known as the Chiang Mai Initiative (CMI), and, while it has not yet been particularly active, earlier this year at the ASEAN+3 Finance Ministers Meeting in Phuket, agreement was reached to increase the pool of funds to USD 120 billion, with China and Japan agreeing to contribute the largest shares. Thai government support for the CMI has been a priority for the current government, and the previous government as well, despite their political differences (ref D). Moreover, Bank of Thailand governor Tarisa Watanagase announced on February 1 that Thailand has opened talks with China to create a currency swap agreement, whereby traders in both countries could settle accounts in renminbi or baht, rather than rely on dollars as has been the case in the past. Tarisa said that Thailand's diminishing reliance on the U.S., Japan and Germany is a good thing. We need some other driving engines, Bloomberg reported her saying.

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#### Work Towards Principled Trade

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¶18. (C) The U.S. economic and trade agenda with Thailand is unquestionably broader than what the Chinese bring to the table. The Thai economic leadership understands that in the long run, respect for intellectual property rights, fair labor practices, and good governance -- principles that are part and parcel of our agenda with the Thai -- are necessary for sound economic growth and political and social peace. This is evidenced by the cooperation we receive across the board on issues such as child labor and trafficking in persons, though Thai efforts are never quite to the level we would like them to be. Nevertheless, in the short term, the Chinese conflict-avoidance model of trade relations is alluring. While sometimes called "free trade agreements," what China has with Thailand (and ASEAN) are little more than tariff-reduction arrangements on goods and do little to expand trade in economic sectors such as services, or protect intellectual property, that are key to expanding long-term growth in maturing economies. Even then, there are large carve-outs for "sensitive" industries in the agreements with China. Progress on the U.S. trade agenda with Thailand, as we work to support the President's stated goal of doubling U.S. exports around the world, may thus be slowed a bit as the Thai devote more time and attention to building economic ties to China. But the easy harvest of "low hanging fruit" in those trade relations will not last forever, and as with any burgeoning trade relationships conflicts will be inevitable. Meanwhile, the emerging strength and influence of Thai civil society should work in our favor over the long haul. Academic contacts point out that the government is "scared to death" of NGO criticism, as evidence by the unprecedented influence they have been able to wield through the courts to bring construction projects to a halt at the Map Ta Phut industrial zone because of pollution and health concerns. Thai media and public attention to the resurgent Chinese melamine scandal, and continuing concerns over the safety of food products from China, show that a sole focus on trade for money's sake will not survive in the long run.

#### Selected Economic Statistics

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¶19. (U) Below are selected statistics on trade and investment that highlight the economic relationship between Thailand and China.

Total Bilateral Trade: By Country  
Unit: Billions of US Dollars  
Source: Ministry of Commerce of Thailand

	2002	2003	2004	2005	2006	2007	2008	2009
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China	8.45	11.69	15.26	20.33	25.33	31.07	36.35	33.15
Japan	24.75	29.43	35.79	41.12	42.05	46.50	53.63	40.76
USA	19.66	20.69	22.71	25.68	29.04	28.91	31.70	25.03

Exports from Thailand: By Country

Unit: Billions of US Dollars

Source: Ministry of Commerce of Thailand

	2002	2003	2004	2005	2006	2007	2008	2009
	----	----	----	----	----	----	----	----
China	3.56	5.69	7.11	9.17	11.73	14.85	16.19	16.12
Japan	9.95	11.36	13.49	15.09	16.39	18.12	20.09	15.73
USA	13.51	13.60	15.50	17.99	19.45	19.42	20.28	16.66

Imports into Thailand: By Country

Unit: Billions of US Dollars (rounded to nearest million)

Source: Ministry of Commerce of Thailand

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	2002	2003	2004	2005	2006	2007	2008	2009
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China	4.90	6.00	8.14	11.16	13.60	16.23	20.16	17.03
Japan	14.80	18.06	22.29	26.03	25.67	28.38	33.54	25.02
USA	6.15	7.09	7.21	8.68	9.59	9.50	11.42	8.37

Net Flows of FDI in Thailand

Unit: Millions of US Dollars (rounded to nearest million)

Source: Bank of Thailand

	2003	2004	2005	2006	2007	2008	2009 Q1-Q3
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China	24	-4	12	50	74	17	23
Japan	2298	2750	2927	2576	3155	2534	1864
USA	336	540	750	166	624	340	124

Board of Investment Applications in 2009

Unit: Millions of US Dollars

Source: Board of Investment of Thailand

	Apps Received	Value	Apps Approved	Value
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China	25	1,308	15	212
Japan	266	2,345	243	1,785
USA	56	1,049	37	775

Tourist Arrivals in Thailand by Country

Source: Tourism Authority of Thailand

	2005	2006	2007	2008	Jan-Oct 2009
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China	776792	949117	907117	826660	590725
Japan	1196654	1311987	1277638	1153868	822767
USA	639658	694258	681972	669097	496812

JOHN